FINANCIAL SECTOR PROGRAM

ANNUAL WORKPLAN OCTOBER 2011 – SEPTEMBER 2012

October 2011

This publication was produced for review by the United States Agency for International Development. It was prepared by Chemonics International Inc.

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Contract No. 674-M-00-08-00043-00

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ACRONYMS

AIPSA	Association of Insolvency Practitioners of South Africa
BA	Banking Association
BDS	Business Development Services
BDSP	Business Development Services Provider
BEE	Black Economic Empowerment
BRP	Business Rescue Practitioners
BSO	Business Support Organization
CIPC	Companies and Intellectual Property Commission
DCA	Development Credit Authority
DOJ	Department of Justice
dti	Department of Trade and Industry
EAAA	Estate Agency Affairs Act
EDC	Enterprise Development Centre of ABSA bank
FI	Financial Intermediary
FSP	Financial Sector Program
GIIN	Global Impact Investing Network
GIIRS	Global Impact Investing Rating System
GSA	Government of South Africa
HDE	Historically Disadvantaged Enterprise
IBA	Institute of Business Advisors
ICSB	International Council for Small Business
IFC	International Finance Corporation
IIB	Institute for Independent Business
INSOL	International Association of Restructuring, Insolvency & Bankruptcy Professionals
JSE	Johannesburg Stock Exchange
KM	Knowledge Management
KRA	Key Results Area
LOI	Letter of Intent
NCA	National Credit Act
NCR	National Credit Regulator
NBFI	Non-Bank Financial Institution
NBSC	National Small Business Chamber
NEDLC	National Economic Development Labor Commission
NMBC	Nelson Mandela Bay Consortium
PIR	Project Intermediate Result
POF	Purchase Order Financing
RGA	Raizcorp Guiding Academy
RFF	Royal Fields Finance
SAIBL	USAID South African International Business Linkages project
SAICA	South African Institute of Chartered Accountants
SAIPA	South African Institute of Professional Accountants
SALRC	South Africa Law Reform Commission
SASDC	South Africa Supplier Diversity Council
SECO	Swiss State Secretariat for Economic Affairs
SEDA	Small Enterprise Development Agency
SOW	Scope of Work
SME	Small Medium Enterprise
TMA-SA	Turnaround Management Association of South Africa
USAID	United States Agency for International Development
USG	United States Government

EXECUTIVE SUMMARY

The Financial Sector Program (FSP) seeks to expand access to financial services and lower financing costs for small and medium enterprises[1] (SMEs) through promoting improved SME credit assessment methodologies and financial products, increasing the financial literacy of SMEs to become more bankable, improving the quality of financial business support services, and reforming the legal and regulatory framework affecting the financial sector and business environment thereby improving the commercial viability of lending to historically disadvantaged SMEs in South Africa. The contract was awarded to the Chemonics consortium on May 22, 2008. This fourth annual work plan covers the period of October 1, 2011 through September 30, 2012 and details planned activities to support the four project components – SME finance, SME bankability, business enabling environment and knowledge management. The focus throughout the work plan is to build on FSP successes to ensure scalability and sustainability of results

FSP will continue to expand and deepen its assistance to partner financial intermediaries[2] (FIs) to diversify and expand their **SME finance** portfolios. During the first half of the FSP the larger FIs were reluctant to explore new, relatively riskier market segments, such as SMEs. Through a series of efforts to make the business case for SME lending, build internal capacity for developing SME-focused credit products, and mitigate risks through the USAID Development Credit Authority (DCA) loan guarantee program, FSP has built strategic relationships with many FIs, including ABSA and Standard Banks. Year 4 will see FSP assisting ABSA to scale up its Purchase Order Finance (POF) and Invoice Clearing products developed with FSP support, as well as exploring value chain and agricultural SME lending opportunities. Standard Bank is poised to roll out its FSP supported POF product in October. While Blue Financial Services currently has instituted a moratorium on SME lending, it too has piloted POF and FSP remains prepared to assist again when scale up is possible. To further expand the SME finance market, the project also plans to investigate opportunities with energy efficiency and asset-based finance products with banks and new partners such as John Deere. In all cases, FSP is prepared to assist with the development of products and upgrading internal FI procedures to accommodate alternative lending models. Smaller FI partners such as WIZZIT and Royal Fields Finance continue to receive FSP attention as they expand their SME lending albeit on a smaller scale.

The USAID DCA program is designed to provide credit enhancements to lenders. With FSPs partners, this can be used specifically to stimulate the SME lending market. USAID has signed two DCA portfolio loan guarantee to support SMEs; one with ABSA bank signed in September 2011, and another signed in 2009 with Blue Financial Services. FSP will build FI partner capacity to develop better credit evaluation mechanisms and streamline procedures to reach a wider pool of SMEs and increase the additionality of the guarantee to the extent possible. Last year, portable guarantee facilities were also awarded to three South African FIs – Mettle, Spartan, and True Group, which FSP will assist to secure wholesale finance. Other Non-Bank Financial Institutions (NBFIs) form a key avenue for increasing the flow of SME finance. To stimulate funding flows to NBFIs for on-lending to SMEs, FSP will work with

[1] For the purpose of this program, an SME is defined broadly as a business engaged in activities generating annual turnover between R200,000 and R25,000,000. This definition was based on the Financial Sector Charter definition proposed and agreed to by the Banking Association and its member.
[2] Financial Intermediary is defined herein as any organization engaged in the provision of financial services, primarily credit, be it a bank, non-bank credit provider or a private financing fund.

USAID through its DCA program to structure an innovative SME Debt Fund to enable asset management firms to source financing for NBFIs.

While the SME finance component addresses the supply side constraints of the FIs, another supports the demand side of finance by improving **SME bankability**. Banks and other FIs often complain about the financial literacy and financial management expertise of their SME clients and cite it as a significant hindrance to expanding their SME portfolios. Over the past three years, FSP has gained high visibility as a thought leader in the promotion of appropriate, targeted business development services (BDS). In Year 4 the project will leverage USAID's FSP initiatives by institutionalizing the principles that underpin high quality BDS. In an effort to make SMEs more creditworthy, the project will continue to build the capacity of business development services providers (BDSPs) by strengthening membership based Business Service Organizations (BSOs). The project will support BSOs to re-engineer their quality assurance processes to increase efficiencies, streamline procedures, and scale up the volume of SMEs served. To further increase SME financial literacy and more formally link SMEs to financing opportunities, FSP will transition its innovative *finfind* initiative to a private sector partner, the Nelson Mandela Bay Consortium (NMBC). *finfind* establishes a minimum standard for qualified BDSPs eligible to use this tool to help SMEs better understand appropriate products and services available and what FIs require to say "yes" to credit. Over the past year, *finfind* has evolved from phase one: market research to concept design to product development to pilot testing. Phase five is now underway to transition *finfind* to the new host institution. The coming year will see intensive capacity building efforts with NMBC to ensure *finfind's* scalability, profitability and sustainability.

An **enabling policy environment** that fosters cost effective delivery of financial services, as well as well-functioning enterprises is essential for economic growth. FSP supports public and private sector partners in the policy reform process to develop solutions to identified obstacles. Assistance can be provided at any stage of the process – from preliminary policy analysis and public–private dialogue facilitation to legislative drafting assistance and capacity building during policy implementation. While the FSP enabling environment component is nearing its conclusion, in Year 4 the project will build on its successful support to the Government of South Africa (GSA) in developing the Regulations for the new Companies Act. FSP's policy work will be narrowly targeted to provide support to the GSA in three core areas: (1) support to National Treasury and the President's Office to strengthen capacity to expand the Regulatory Impact Assessment program; (2) support to *dti*/CIPC on implementation of the new Business Rescue process; and (3) support to the Department of Justice and Law Reform Commission to prepare a new draft bill aimed at unifying the multiplicity of procedures for insolvency. To help spawn a new industry of financial products for businesses undergoing restructuring, FSP's Policy and SME Finance components will collaborate to develop a business case for business rescue financing to further support stability in the business and finance sectors.

FSP's final component is a cross-cutting intervention to improve the **knowledge management** of SME finance opportunities, successful approaches to SME development, and tools for FIs and BDSPs to use in SME capacity building efforts. Over the past year, the FSP-led Financial Sector Blog (www.fsp.org.za/blog) formed a key conduit to share industry experiences and lessons learned. In Year 4, to ensure sustainability and wider outreach, FSP will transition the blog to the new *finfind* host. Additionally, FSP will initiate and organize various events, workshops and symposia and leverage those of partners to promote financial products developed by FSP and to exchange SME development approaches with partners.

SECTION I: INTRODUCTION TO THE FINANCIAL SECTOR PROGRAM

A. Contract Background

The Financial Sector Program (FSP) is a USAID/Southern Africa economic growth program awarded to Chemonics International on May 22, 2008 under the GSA Contract GS-23F-0127P and USAID Blanket Purchasing Agreement EEM-E-00-05-00006-00; provided for under USAID task order 674-M-00-08-00043-00. This award had a base period (30 months) with an option period (30 months), which was exercised on June 22, 2010. This project will conclude May 21, 2013. The total cost of the contract was originally $14,297,997 however in 2009, a modification was finalized increasing the contract to $14,497,997 to support an additional technical element.

FSP was designed to support the accomplishment of the U.S. Government's Economic Growth Objective in South Africa. This program is one of three main vehicles to promote vibrant growth of historically-disadvantaged small and medium enterprises (SMEs) and reduce unemployment and poverty — generating rapid, sustained and broad-based economic growth in South Africa.

Chemonics Consortium

Prime:
- Chemonics International Inc.

Subcontractors:
- Crimson Capital
- Khulisa Management Services
- Shorebank Advisory Services

FSP seeks to expand access to financial services and lower financing costs for small and medium enterprises[3] (SMEs) through facilitating the improvement of SME credit assessment methodologies and financial products, increasing the financial literacy of SMEs to become more bankable, improving the quality of financial business support services, and reforming the legal and regulatory framework affecting the financial sector and business environment thereby improving the commercial viability of lending to historically disadvantaged SMEs in South Africa. The ultimate result is to mitigate market credit risk leading to increased SME access to a range of quality, affordable financial services.

This annual work plan builds on the partnerships established and successes seen in the first three years of the project and covers the period October 1, 2011 through September 30, 2012.

B. Operating Environment and Approach

South Africa is Africa's largest economy, with strong financial, legal, energy, communications, and manufacturing sectors, abundant natural resources, and a thriving tourism industry. Yet underneath South Africa's developed economy lies a "second economy," comprised mostly of poor, historically-disadvantaged communities. A legacy of Apartheid, this second economy can be seen in the townships and outskirts of South Africa's cities and in rural areas where large numbers of the population live in informal housing with little to no access to electricity, transport, or modern water or sewage systems.

[3] For the purpose of this program, an SME is defined broadly as a business engaged in activities generating annual turnover between R200,000 and R25,000,000. This definition was based on the Financial Sector Charter definition proposed and agreed to by the Banking Association and its members.

FSP will actively engage in activities which will help to integrate this second economy of historically-disadvantaged groups into South Africa's larger economy and specifically assist SMEs fulfill their critical roles as drivers of the economy. Activities under FSP will focus on improving and expanding financial services and products; managing and mitigating financial risk and transaction costs; improving bankability of SMEs and business services by linking financial services with business service activities that can build SME capacity, productivity and competitiveness, as well as improve the capacity of financial advisory services to serve SMEs; support an enabling environment for financial intermediation and risk management, and boosts the private sector's role and participation in the provision of financial services to SMEs; promote reforms to commercial laws, regulations, and administrative practices affecting the private sector and SME development; and, improve knowledge management through building an accessible repository of information and analysis about SMEs and finance in South Africa.

As any project progresses, its operating environment – economic, and political, regulatory realities – continuously evolves often impacting planned activities and proposed partnerships. For FSP, each of these realities presents challenges, but also opens up new opportunities. Program assumptions and delivery mechanisms needed to be swiftly adapted to turn market challenges and obstacles into development opportunities.

As the above GDP chart for South Africa shows, it's been a wild ride in terms of economic growth in South Africa since the USAID Financial Sector Program was established in 2008. Reflecting the tumult of the global economy, the South Africa economy had a severe dip in economic activity from late stages of 2008, through mid 2010. FSP was established to foster better access to finance to SMEs. The strategy for nurturing this growth from the inception of the program was to work with the larger banks in South Africa to help them move further into the SME sector. Given the economic downturn in 2008, the program saw little desire from the big banks to move into a risky sector in uncertain times. FSP adapted to the environment by initially working with second tier financial institutions, but as economic indicators began to improve, it reinvigorated the banks' appetite to look at SMEs as a profitable business line. The challenges to launching an SME access to credit program and expecting immediate results in such an environment are obvious, but by testing new products and approaches with the second tier FIs, FSP was well-equipped to respond when the big banks were ready.

Following the FSP operating pillar to "facilitate rather than instigate" changes in the financial BDS sector, FSP has cultivated lasting relationships with BDOs which support BDSPs to improve the products they offer to SMEs in an attempt to professionalize and develop the market on a demand driven approach. Continually stalled initial attempts to create a county wide BDSP accreditation system, led FSP to shift to a private sector driven approach. However, now three years hence, there is resurgence for the development of a government mandated system of BDSP standards. This renewed interest in based in part on efforts to continue the dialogue even in light of fragmented market feedback. FSP's financial BDS initiatives are the result of extensive partner dialogues, market surveys and assessment, epitomizing the facilitation aspects the program embodies.

In today's global environment, with greater competition and commercial risk, investors are more keenly aware of the problems of recovery and more selective about where they invest or lend, favoring markets with less risk and more reliable structures to support recovery. South Africa's rankings in international comparative studies have shown that the country is slipping in its overall effectiveness of closing a business relative to some of its neighbors, in large part because other countries have modernized legislation in this area. The World Bank's *Doing Business 2011* report ranked South Africa's procedures for closing a business (i.e. liquidation and exit mechanisms) 74th out of 183 countries. Local practitioners reported that the process takes 2 years on average, costs approximately 18% of the estate's value, and pays all creditors an average of only 34% of claim value: estimates that have remained static for the last four years. Regionally, South Africa's rankings fall behind Botswana (27), Namibia (53), Uganda (56), Swaziland (63), Lesotho (69), and Mauritius (71). As FSP enters Year 4, the approach to continue to support the government in targeted technical assistance to help reach its business enhancement goals will be continued, particularly as it relates to business rescue and identification of possible financing opportunities there under.

Within this operating environment, FSP continues its four-pronged approach to increase SME access to a range of quality, affordable financial services to facilitate business growth and catalyze increased employment and incomes:

1) Improve financial intermediaries' capacity to serve SMEs in South Africa
2) Improve the "bankability" of SMEs
3) Reform the legal and regulatory framework affecting the financial sector and business environment stimulating SME growth
4) Strengthen the SME finance knowledge management system.

C. FSP Program Team

Staff changes: During Year 3, FSP experienced attrition of and replaced two full time senior staff positions. Terry Wyer is the new SME Finance Specialist, coming from the International Finance Corporation and bringing a rich background in banking and private sector development throughout Africa. FSP also replaced the Knowledge Management/Monitoring and Evaluation Specialist who will transition to USAID/Pretoria. Erika Schutze brings a unique blend of compelling journalistic writing and solid monitoring and evaluation skills. Both joined FSP in September 2011.

Additionally, to bring the policy component to a successful conclusion, Gordon Johnson, a highly experienced FSP short term policy consultant, will provide intermittent support to ensure initiative continuity following the departure of the full-time component leader in May 2011.

The full complement of the FSP team is shown below.

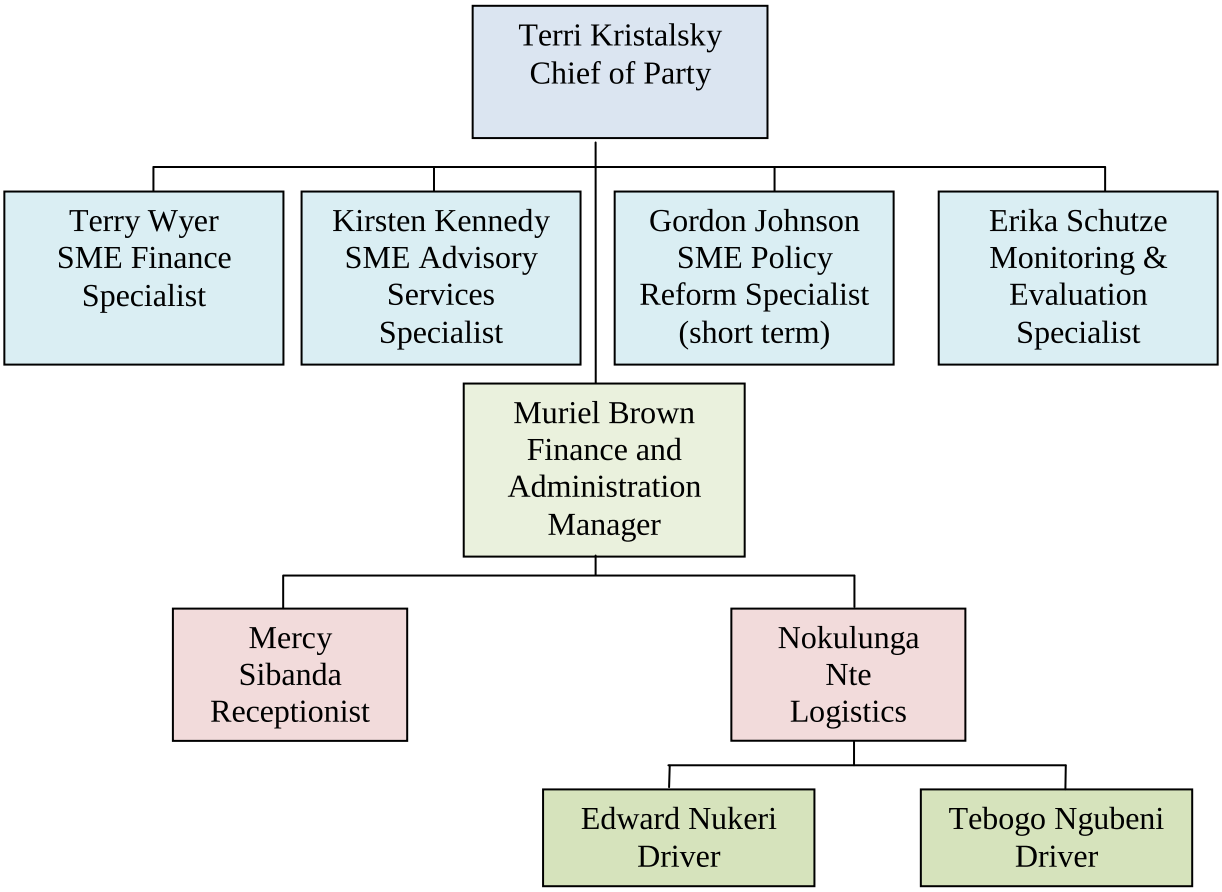


Exhibit 1-FSP team

D. FSP Results Framework

FSP has been designed to support the achievement of the U.S. Government Economic Growth Objective in South Africa. This program contributes to the objective to help improve SME access to a range of quality, affordable financial services. Within the Economic Growth objective, FSP helps to mitigate market credit risk increasing SME access to a range of financial services (see Exhibit 2, Results Framework).

The results from each level of the framework support the achievement of the results on the level above – culminating in achieving the Mission Economic Growth objective of increased access to finance by SMEs. For each of the four Project Intermediate Results (PIRs), FSP has elaborated Key Result Areas (KRAs) that are representative of the overall strategies for achieving the intermediate results. These KRAs guide project staff in their activity planning and provide the basic structure for performance monitoring, evaluation and reporting. Each KRA has a technical leader, a set of activities, associated tasks, defined resources, and benchmarks for this interim work plan. These are detailed in the text in Section II and activity sheets and timelines in **Annex A**.

E. FSP Results Framework

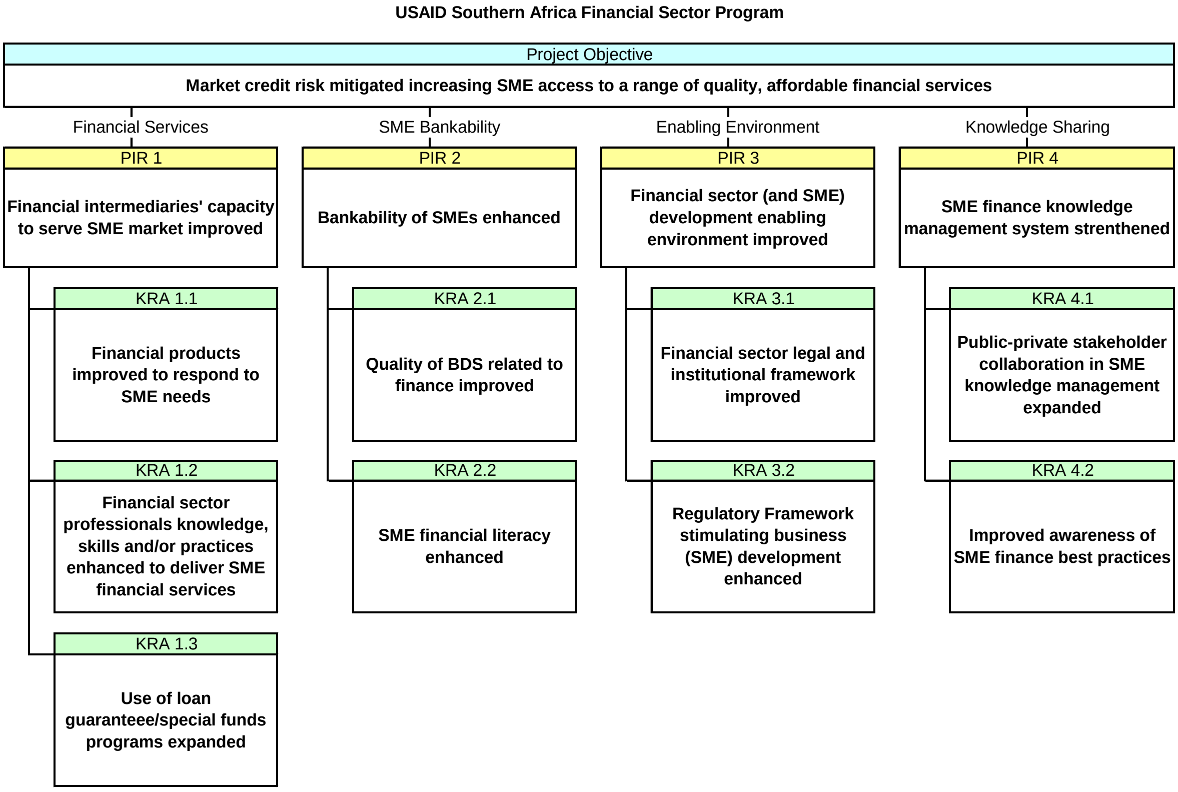


Exhibit 2-FSP Results Framework

SECTION II: WORKPLAN BY TECHNICAL COMPONENT

A. Project Intermediate Result (PIR) 1: Financial Intermediaries' Capacity to Serve SME Market Improved

South Africa's financial services sector is backed by a sound regulatory and legal framework with dozens of domestic and foreign institutions providing a full range of services - commercial, retail and merchant banking, mortgage lending, insurance and investment. Yet, SME lending is still a major obstacle to economic growth in South Africa with many financial institutions shying away from this riskier sector. The underwriting of traditional bank lending often makes it beyond the reach of many SMEs in South Africa. Even though South Africa financial institutions and specifically the big four banks are interested in moving deeper into the SME sector, their internal processes, procedures and product suites are often rigid and inadequate to reach many small and medium enterprises.

On the demand side, SME's that are in need of financing often lack the ability to produce the formal documentation that the banks and other financial institutions require in their current underwriting procedures. They are in many cases lacking the collateral that is required as well.

Evolution of FSP's approach

When FSP was launched in June 2008, the overall crisis climate prevailing in 2008 and 2009 led many of the leading financial institutions to scale back their lending to what they deemed inherently more risky sectors. Therefore FSP initially took a multi- prong approach.

Fist, FSP shifted its focus away from the "big four" banks and began to concentrate on smaller Tier II banks, like Wizzit, and finance companies such as Blue Financial and Royal Fields Finance and lastly on special purpose vehicles and private funds such as Grofin and Old Mutual Masiszane. While producing interest, these partners could never take the program results to a large scale.

Second, FSP focused on identifying methods to help mitigate risk. By introducing USAID DCA guarantees to the financial sector in South Africa, FSP has begun to get traction in moving FIs further into the SME sector and uncovered an entire cache of alternative SME lenders, namely non-bank financial intermediaries.

Finally, continued cultivation of relationships with the larger FI are now paying off with Standard and ABSA Banks, both now rolling out new SME-focused loan products with FSP assistance.

FSP, through the SME Finance component , will work with FIs to look at better ways of assessing risks of the SMEs working with key partners to better understand the risks inherent in the typical SME as well as to look at alternative products, risk assessment tools and better channel delivery to reach more of this untapped market.

This component will also work closely with the SME bankability component to identify opportunities to link the BDSPs and their client SMEs directly to the partner financial institutions that we are focusing our efforts on going forward

Beyond the traditional funding challenges between FIs and SMEs, access to financing remains one of the key constraints of SME Non-Bank Financial Institutions (NBFIs), and tight credit market conditions are likely to continue limiting access in the medium-term. To address this situation, FSP is exploring alternative funding sources for the three partners currently holding a portable guarantee as well as other similar NBFIs servicing SMEs. To that end, FSP will facilitate the formation of an SME Debt Fund backed by DCA guarantee support and leverage capital market funding for NBFIs and ultimately SMEs.

Three Key Results Areas (KRAs) support PIR 1:

KRA 1.1: Financial products improved to respond to SME needs
KRA 1.2: Financial sector professionals' knowledge, skills and/or practices enhanced to deliver SME financial services
KRA 1.3: Use of loan guarantees/special funds programs expanded

Each of these KRAs and its associated activities are detailed in the following pages. Specific tasks and timings are indicated on the timelines that follow the text in Annex A.

KRA 1.1 Financial products improved to respond to SME needs

<u>*KRA Strategy:*</u>
The key to assisting FIs improve access to finance for SMEs is to offer a full suite of products including those specifically designed for these types of firms and specific to the environment here in South Africa. One characteristic of the FIs in the market is their apparent inability to adapt and be innovative in their approach. FSP will assist its FI partners to develop and implement loan products that will meet the specific financing needs of SMEs such as purchase order financing (POF), invoice clearing (IC), factoring, warehouse receipts, asset based finance, value chain financing, and DCA guarantee mechanisms. A relatively hands-on approach, especially in the early stages of product development and revision of processes and procedures, is key to maintaining interest and momentum as risk-averse institutions adapt to change.

PIR 1 Benchmarks

- 4 new or modified financial products developed
- 3 management processes modified
- New value chain product introduced to 2 partner FIs
- 300 new purchase order finance loans extended
- 100 financial sector professionals trained
- 1 new DCA signed
- 500 DCA loans extended
- 2 completed DCA concept papers approved
- SME debt fund launched
- 5 NBFIs receive funding

Of course, development of a new product is ineffective without complementary technical assistance in creating appropriate risk analysis tools, risk management systems and proper marketing targeted to the new sector. Overall, development of more suitable financing products will broaden the SME finance market and increase access to finance.

In Year 4 of the program, FSP will focus on high-performing FI partnerships with an aim to improve and institutionalize the new products and scale up roll out and outreach. This will ensure they are sustainable and profitable for the partner institutions going forward and well after FSP has ended. Given the growing track record of FSP-supported products, the project will also market similar products to new FI partners for expanded outreach within the SME sector.

Activities:

1.1.1. Refine, improve and suggest changes to SME policy, procedures, products and approach with partner FI's. FSP will continue its hands-on approach with key partners to help streamline processes and procedures, refine their marketing and channel delivery systems. FSP will also look to introduce alternative products such as asset based financing, energy efficiency-focused products and value chain financing (see KRA 1.1.3 below). For any new product, FSP will conduct a business case analysis of the alternative products to increase awareness that SME lending opportunities are in fact a profitable business line and provide real value to the community in the form of impact in job creation and economic empowerment.

FIs often reject SME clients outright as their applications are fed through the traditional credit review and credit scoring processes. With FI credit managers, FSP will explore improved use of credit information that can streamline processes and improve credit scoring methodologies while also looking to advise partner institutions on the barriers around collateral and help to develop options to include as part of the underwriting process.

FSP will also examine alternative client rating models such as EFL psychometric testing pilots with ABSA Bank and assist WIZZIT to review its nascent SME division's loan policies and procedures and properly segment interest rate categories for SME clients. With an intensified focus to impact and outputs, FSP expect to exceed its annual goals for both products modified and new products introduced.

1.1.2 Develop a new supply/value chain lending approach with FIs and other partners. With a growing awareness and interest in value chain finance, FSP will begin by introducing a value chain approach to ABSA Bank by helping to identify private sector value chain partners (agriculture and others) to develop targeted products for the identified subsector. Ideally, FSP will work with ABSA to develop new products, value and supply chains and also to identify off takers for the primary producers which ABSA will finance throughout the value chain as needed. As part of the Enterprise Development area of the bank, ABSA has asked FSP to be part of an Agri Advisory Forum together with 15 large commercial farmers to develop ideas on how to best deliver financing and services to emergent farmers in South Africa. As ABSA moves forward with this initiative, FSP will assist in developing the tools and products with ABSA and take this to scale with other financial institutions in the market.

Unlocking SME credit with an eye to value chain opportunities

Value chain financing provides a critical input to the increased competitiveness of an economic sector by helping an industry expand and compete more effectively. Many businesses, often with important supporting roles in processing and other important areas throughout the value chain, are considered very risky by banks and other financial institutions. However, without access to finance these businesses are stifled and the sector can lose opportunities to compete and grow. For example, anchor firms in a value chain may easily access credit, but their SME suppliers require credit in tandem to expand to meet new market opportunities.

As the banks in South Africa look to diversify their portfolios in a safer and with a less risky approach, value chain financing is now starting to become an important product for these institutions.

As part of this process, FSP will also help to develop processes and procedures for value chain financing not only for ABSA but more broadly with a view to working with other large financial institutions that can deliver more effective development impact through larger volumes of lending drawing on opportunities with the nascent South African Supplier Diversity Council (SASDC), the end result of USAID's SAIBL program. By introducing value chain financing, FSP will be also be focusing on agriculture which is one of the key development initiatives of USAID and Feed the Future.

KRA 1.2 Financial sector professionals knowledge, skills and/or practices enhanced to deliver SME financial services

KRA Strategy:

FSP's strategy moving forward will continue to focus on key partner institutions and capacity building and skills transfer as needed. To look to obtain a larger development impact from program efforts, FSP will apply a renewed focus on key partners capable of scaling up their outreach quickly. FSP will continue to build capacity as needed for smaller Tier II partner FIs, but the majority of program efforts and time will be spent in assisting the larger institutions, such as ABSA and Standard Bank, which are now showing a deeper interest in the sector. Also as part of the strategy in building knowledge in the marketplace, FSP will assist the partner NBFI's and Asset Management Firms in the establishment and set up of innovative structures that will better allow for the flow of funds to the SME Sector.

1.2.1 Improve capacity of loan officers to promote and increase utilization of Purchase Order Finance (POF). FSP previously worked with ABSA Bank to develop its POF products: Vendor Finance and Invoice Clearing. ABSA launched the two loan products in September 2009, and as of August 2011, have met the working capital needs of 253 SMEs.

FSP will continue to assist ABSA as it further expands the POF and IC loan products and will assist the bank to promote and disseminate product information by facilitating linkages between with BSOs, particularly drawing on the emerging South African Supplier Diversity Council (SASDC). In addition, FSP is exploring how ABSA can use procurement finance in additional sectors and with a broader client base.

Another FSP POF partner, Standard Bank is expected to have integrated POF lending into their SME product offering by the end of October 2011. FSP has provided technical assistance to Standard Bank while developing the product and will continue to do so over the next 12 months as Standard Bankrolls out the POF product pilot in Kwa Zulu Natal and the Free State. FSP will take on an advisory role reviewing the transactions, repayment streams and sector concentrations as Standard Bank refines and ultimately launches this new product country wide.

WHY POF?

Working capital is essential for the successful financial management of a small business. SMEs need working capital on a daily basis in order to meet cash-flow needs and maintain their businesses. Working Capital loan products should have lower collateral requirements, often omitting real estate, and have tenors that match the product/service cycle of the SME, so that the loans are transaction based, self-liquidating, and only bear interest for the exact number of days the SME needs the money. Purchase Order Finance (POF) products address these issues.

POF is effectively an advance by the lender to the borrower for working capital secured by a verified purchase order or sales contract. POF is a demand-driven, value chain and transaction-based form of working capital finance that allows SMEs to fill more frequent and/or larger orders for its products or services, and thereby grow and become more profitable. It can be applied across most sectors and provides risk mitigants for the lender. It is a financial product that meets the requirements of both the FI and the SME, creating a win-win for economic growth in South Africa.

Blue Financial Services has also received product development, training and support on POF from FSP and has focused on the franchise sector successfully developing a POF product for MultiServe franchisees and the franchisor. Unfortunately, the new investor has currently placed a moratorium on all lending activities. FSP will carefully watch this situation as it evolves and consider renewing support for Blue once it resumes lending and shows interest in scaling up its outreach.

To further disseminate the opportunities for SME lending, FSP staff will make presentations on POF to the Industrial Development Corporation (IDC), The Banking Association of South Africa, and other key stakeholders in South Africa. As a result of these efforts, FSP to see at least 300 new POF SME loans made this year.

1.2.2 Build capacity of loan officers to promote and increase utilization of SME targeted products. FSP will support ABSA Bank as it begins to market the SME product supported by the R200 million DCA. Together with assisting in defining the marketing plans/budgets, FSP will also help to disseminate the recent DCA product training (train-the-trainer) that took place in the FSP offices. ABSA Bankis planning to train up to 600 loan officers on the DCA with FSPs assistance.

FSP will also assist the banks and other financial partners in developing alternative channel delivery solutions. One aspect of this is to work with the SME bankability component for FSP in looking at ways to link in to **finfind** and other BDSP-trained SME's that will be better prepared for approaching financial institutions and be more 'bankable'. FSP will also look to the needs of NBFIs to determine wherein additional capacity building is required to improve the delivery of SME finance.

As new product opportunities emerge, FSP will provide technical capacity building for FI partner professionals to ensure comprehensive understanding of products features, benefits and how to properly identify credit worthy candidates for these products.

USAID FROM THE AMERICAN PEOPLE

DEVELOPMENT CREDIT

Clear benefits of utilizing DCA credit guarantees include:

- Financing comes from the local private sector – the DCA credit guarantees will encourage Banks such as ABSA and other local financial institutions to provide the loan capital for projects that would otherwise be too costly or restricted by a lack of interested lenders in that sector.
- Banks learn by lending – providing local financial institutions with the security to extend credit, and encouraging them to expand into new sectors, guarantees reduce the risk of a new environment and learn about viable and potentially profitable new markets and investment options.
- U.S. government funding will be maximized – by using credit from local sources to finance development

KRA 1.3 Use of loan guarantees/special funds programs expanded

KRA Strategy:

Banks in South Africa are very conservative in their lending practices in general and even more so when lending into the SME sector, which is perceived as inherently risky. To overcome this barrier, many FIs look to external credit enhancements. To meet this need, FSP has been promoting the use of USAID Development Credit Authority (DCA) guarantee schemes to provide partial credit guarantees to stimulate lending activities. DCA is a powerful catalyst for unlocking the resources of private credit markets to spur economic growth while advancing development objectives. These partial guarantees allow lenders to gain hands-on experience learning that with proper risk assessments, loans to SMEs can be profitable. This will foster self-sustained financing once the lenders become more comfortable with financing projects on a continuous basis without the support of guarantees.

FSP will assist the existing holders of DCA guarantees in developing products and tools to be able to better utilize the DCA. The program will also work on the design of an innovative funding structure to facilitate new sources of funding into the market as well as on-lending backed by the partial guarantee.

***1.3.1 Facilitate/Promote Utilization of DCA Guarantee Facilities in South Africa*.** During the first three years of the program, FSP has worked together with USAID in signing several DCA guarantees with financial institutions in South Africa.

A $10 million dollar portfolio guarantee was provided to Blue Financial Services in 2009 and despite its operational challenges, they have been able to provide over R59 million to 66 SMEs. As this is a guarantee that can revolve once, while Blue is still behind in initial targets, FSP will help to identify credit inefficiencies to increase its lending activities once it begins lending again.

In 2010, the USAID Credit Review Board approved DCA Portable Guarantees for three FSP NBFI partners who support the credit needs of SMEs: Mettle Administrative Services ($20 million); True Group ($20 million) and Spartan Technology Rentals ($25 million). The three partners have approached a wide variety of lenders, including large and medium sized banks, insurance companies and specialized lenders. However, none yet succeeded in securing loans because of tight credit market conditions in South Africa and a general reluctance of South African banks to assume the risk in its balance sheet, despite the offer of a U.S. government 50% guarantee. FSP will continue to assist the portable guarantee holders in expansion and usage of the facilities and specifically look at barriers to finding financing in the marketplace for True Group, Spartan and Mettle and other NBFI's. Once financing is secured, the program will build capacity of these institutions to better capture opportunities, perhaps by considering new product development such as POF, IC to address the demands of the SME market.

Finally, in September of 2011, a R200 million portfolio guarantee facility was approved for an ABSA Bank SME product. FSP will support ABSA's efforts as it launches this product in November 2011 and will also examine sector and value chain approaches for increased SME lending supporting ABSA's interest in moving deeper into the agriculture sector.

Working together with USAID colleagues, FSP will also explore opportunities with potential new partners to determine if a guarantee facility will help to expand their SME footprint in South Africa, such as John Deere and FarmSecure Holdings. Both of these are in the agriculture sector and will contribute the USAID Feed the Future goals and have the potential for regional expansion.

Lastly, working together with the policy component, the SME Finance component will look to develop financing products and procedures for distressed businesses. As part of the new legislation on business rescue, FSP will support existing and potential new partners on the development of such a product and roll out over the coming year.

The goal of helping to expand the lending under the DCA guarantee facilities is to increase the appetite of our new and existing partners to further develop their SME portfolios and expand the services and offerings on a sustainable basis. Through these efforts, we expect our partners will generate up to 500 new DCA guaranteed loans over the coming year.

1.3.2 Create an SME Debt Fund for use in downscaling to SME's. It is well known that the larger financial institutions in South Africa are at best, reluctant to lend into the SME sector and at worse, have very little interest in lending of this sort down-market. Although FSP continues to work with a few larger banks to increase their appetite for and understanding of the SME sector in South Africa, it is clear that alternative solutions are needed. Through research done recently by FSP, it was found that there is a definite, critical need for access to affordable capital among NBFIs[4] and SMEs in South Africa. A small sample of NBFIs has established that they can absorb more than R2 billion within 12 months suggesting that there is a significant market for capital allocation. The traditional lending sources, i.e. banks, have shown a lack of interest in acting as wholesale lenders, and therefore an alternative approach to leverage on-lending capital via the capital markets in partnership with asset fund managers is being considered.

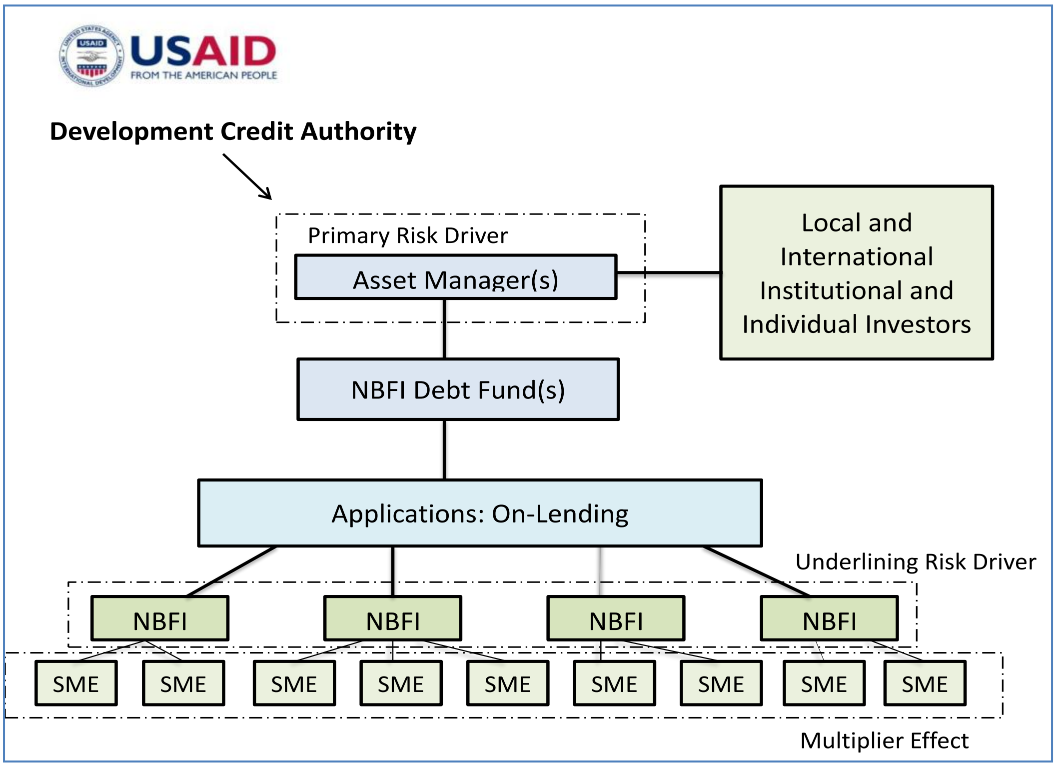


Exhibit 3 – Possible SME Debt Fund Structure

FSP has been working with USAID to develop a SME Debt Fund in the range between USD 100–200 million. This fund will be utilizing USAID DCA guarantees of up to fifty percent of the partner asset management firm funding. As part of this process, FSP will work on identifying the appropriate asset management firms that will use the SME Debt Fund guarantee to capitalize the fund.

[4] An NBFI is defined as a institutions which generally only do lending and are not deposit taking entities. They are dependent on external funding sources for all their on-lending activities.

Thus far, USAID together with FSP have identified four potential asset management firms to partner with on the establishment of the Debt Fund. These firms are:

- Worldwide Capital
- Cadiz and Greater Capital
- Futuregrowth Asset Management
- Sanlam Capital Markets Limited

The next step for FSP and USAID is to engage the four asset management firms in a deeper conversation to understand the barriers to their potential participation and to provide the parameters whereby USAID would like to move forward with the creation and operation of an NBFI/SME Debt Fund. Once the 2 – 4 firms has been chosen, FSP will guide the asset management firms through the DCA process and assist with the structuring of the SME Debt fund; facilitate preparation of DCA action packages together with the partner firms for presentation to USAID; and as needed, enhance capacity of asset management firms to facilitate downstream lending. The project will also assist the asset managers using the USAID DCA guarantee facilities to leverage alternative capital market opportunities, institutional and large pension funds, Foundations and Enterprise Development Funds.

Cutting Edge Activities provide Demonstration effect

The goal of the SME Debt Fund is to dramatically increase the capital flow to NBFIs and SME's directly. By leveraging the DCA mechanism, FSP and USAID expect to see a significant number and volume of loans done under this initiative.

If these funds continue to grow in future without the necessity of a guarantee, we will have seen a very good structural change and success in the access to financing for SMEs in South Africa.

FSP is expecting to see at least 2500 loans from the structured set up of the SME Debt Fund. This will include the lending by the asset management firms to NBFIs that will then on-lend directly to SMEs and also direct lending to SMEs from the asset management firms themselves.

1.3.3 Expand opportunities for partner NBFIs to extend credit to SMEs. Non-Bank Financial Institutions (NBFIs) are an important source of financing to SMEs. Many NBFIs are specialized financial services firms with the track-record, credibility, management expertise, and credit risk management procedures to assess, lend, and profitably manage an SME loan portfolio. In general, NBFIs face a tight credit market for traditional bank lending, with limited options to access capital to on-lend and provide services to SMEs. These NBFIs reach a wide universe of SMEs, but capital constraints limit their ability to expand their services.

On the individual company basis, FSP has been working with three partner NBFI's and last year helped them to obtain portable DCA guarantees to assist them to access capital in the marketplace. The three firms (with the size of their DCA facility noted) are:

- Mettle Administrative Services ($20 million guarantee);
- True Group ($20 million)

- Spartan Technology Rentals ($25 million)

All three began discussions with potential lenders well before the USAID DCA guarantee approval dates and have approached a wide variety of lenders, including large and medium sized banks, insurance companies and specialized lenders. However, none have succeeded in securing loans because of tight credit market conditions in South Africa and a general reluctance of South African banks to assume the risk in its balance sheet, despite the offer of a U.S. government 50% guarantee.

While ultimately, the development of the SME Debt Fund may satisfy the long term needs of these NBFIs, in the interim FSP will continue to identify wholesale lending sources. FSP will perform a review of the existing funding sources for NBFIs to examine where and how NBFIs are getting funding in the market. As part of this research initiative, FSP will assist the NBFIs in ‘packaging’ their companies and presenting them for reconsideration to both traditional and non-traditional sources of finance. As part of the capacity building to ultimately assist NBFIs access capital, the SME Finance and SME bankability components will work together in making sure that all our partner institutions are channeled to **finfind** for inclusion in its FI directory.

All of these partner NBFIs support the credit needs of SMEs and have lofty goals in the number of SMEs they can potentially fund. One partner alone (Mettle) would potentially be able to fund 18,000 loans to SMEs annually if it obtains financing. FSP will endeavor to identify funding for at least two of the portable guarantee partners and three additional NBFIs. NBFIs obtaining funding would lead to a dramatic increase in the number and volume of SME lending flowing through these partner institutions.

B. PIR 2: Bankability of SMEs Enhanced

Just as the SME Finance component addresses the challenges faced on the supply side (FIs) of access to SME finance, the SME Bankability component seeks to help overcome deficits on the demand side of SME finance (SMEs) – to make SMEs more bankable. The main focus of PIR 2 is to build the capacity of business development service providers (BDSPs) – both organizations and individuals – so that SMEs are offered a more effective service in helping them to access finance and thereby grow their business.

FSP does this in two ways: one is improving the quality of business development services (BDS) related to access to finance; the other is by enhancing SME financial literacy, namely their understanding of what appropriate financial services and products are available and who provides them.

The past year has seen an noticeable decline in demand for BDSP capacity building, not necessarily because capacity is not needed, but possibly because the right kind of capacity building is not being offered, and because with tougher economic times, BDSPs are more

PIR 2 Benchmarks

- 60 new BDSPs graded or trained
- 1 new BDSP capacity intervention introduced
- Modifications of piloted version of *finfind* complete
- *finfind* host institution appointed
- *finfind* host action plan completed
- 100 *finfind* BDSPs trained
- 20 financial institutions added to *finfind* directory
- IT action plan for *finfind* completed
- 10 new or modified modules added to *finfind*
- *finfind l*aunch completed

reluctant to invest in capacity building unless there is a clear market incentive (and business opportunity) to do so. All too often, BDS is supply driven and constrained by the narrow services the provider offers. BDSPs too often forget to understand that the SME is a customer, with specific needs.

The following figure illustrates what FSP considers to be the essential elements to take into account when developing high quality BDS.

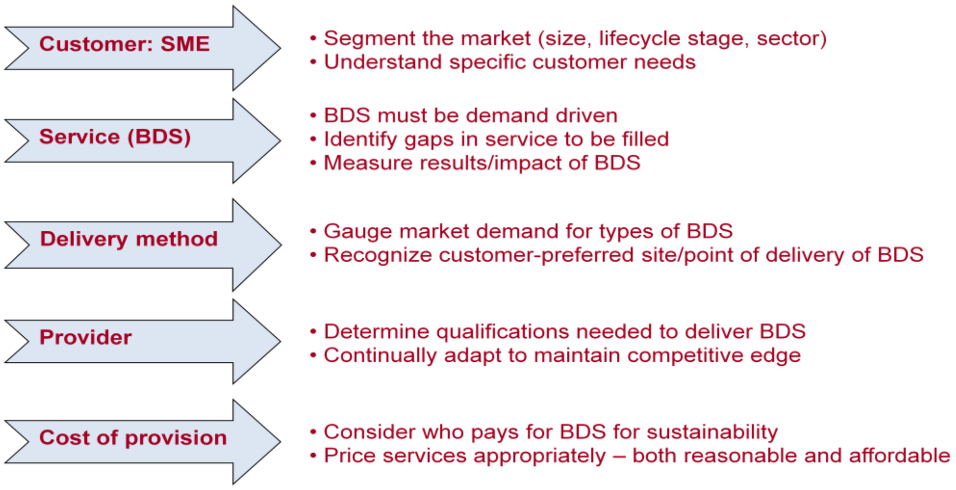


Exhibit 4: Key considerations for quality assurance of BDS

With this broad market approach in mind, all FSP's BDS interventions are built upon cultivating an understanding of the market, namely, that any BDS intervention which facilitates access to finance must begin with understanding the SME customer needs. Unless helping SMEs to become more bankable takes this approach into consideration, BDS will at best be irrelevant, and at worst, not be used by SME clients.

FSP has partnered with two BSO organizations, Raizcorp and Aurik, which have demonstrated their effectiveness in providing appropriate BDS to targeted SME segments. Both are SME incubators that are recognized as market leaders in BDS delivery and which provide rigorous quality control of the BDSPs they use. In the coming year, the project will continue to help each strengthen their services and scale up delivery so that more SMEs have access to BDSP services.

This targeted technical support will be complemented by a scalable SME financial literacy initiative branded *finfind* which has the potential to build the capacity of hundreds of BDSPs.

The diagram illustrates the essential relationships needed to help SMEs successfully access finance. FSP, through strategic technical assistance and innovative tools, facilitates these links. *finfind* establishes a minimum standard for qualified BDSPs eligible to use the tool to help SMEs better understand appropriate products and services available and what FIs require to approve credit applications. The ultimate objective is for FIs to see *finfind*-assisted SMEs as inherently more credit worthy.

Two Key Results Areas (KRAs) support PIR 2:

KRA 2.1 — Quality of BDS related to finance improved
KRA 2.2 — SME Financial Literacy Enhanced

Key activities for each of the KRAs are detailed in the following pages. Specific tasks and timing are indicated in Annex A, which follows the text.

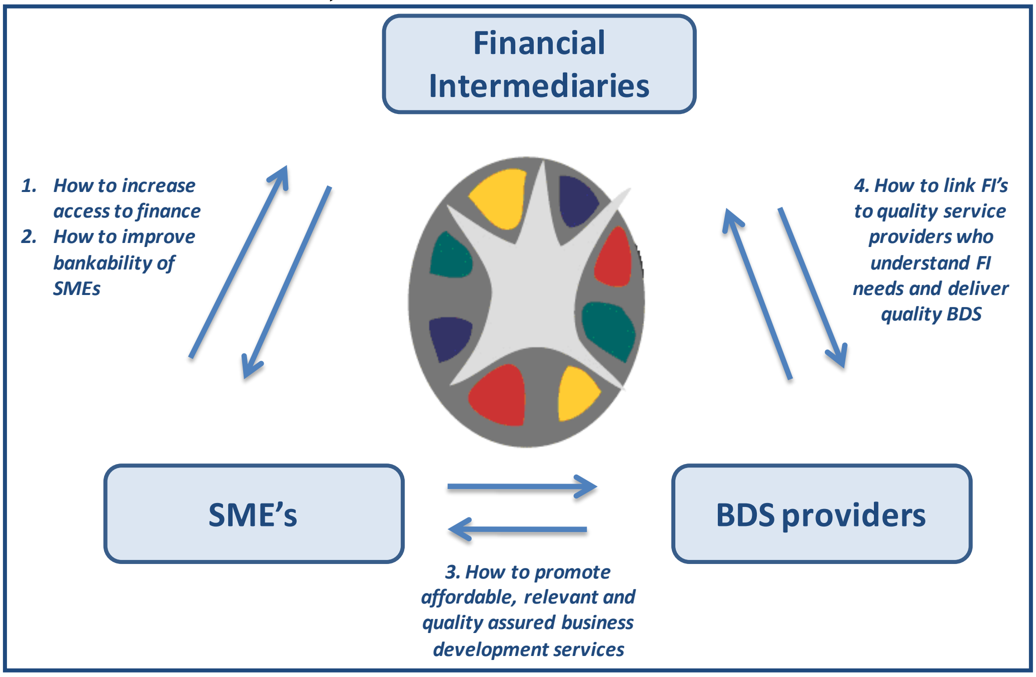


Exhibit 5: finfind's role in facilitating SME financing

KRA 2.1 Quality of BDS related to finance improved

<u>*KRA Strategy:*</u>
To raise the quality of finance-related BDS, FSP will focus on assisting its partners to scale up initiatives piloted earlier in the program, specifically, improving the grading methodologies and training interventions of key BSOs in the market. FSP will assess the impact of work done with partners and determine how further assistance can help to scale up delivery as originally anticipated.

FSP will also continue to improve the quality of BDSPs through selected capacity building efforts that are focused on linking SMEs to finance.

Previously, FSP assisted Raizcorp to design a framework of standards, as well as tools for screening, selection, grading, assessing and professionally developing BDSPs. During the coming year, FSP will identify where Raizcorp can achieve greater efficiencies in its tried and tested system, to become more operationally efficient so that its capacity is utilized in an optimal way and the cost of grading is brought down. Such business process reengineering is focused not on the tools and systems which have already been tested, but on improving the operational process, so that the expected outcome is to enable the Raizcorp's Guiding Academy (RGA) to increase the number of quality assured Guides in the coming year.

FSP will also evaluate the impact of the work it has done with Aurik in order to design additional interventions to enable Aurik to scale up its selection, training and advancement of Facilitators, as well as to facilitate expansion of the use of the online diagnostic tool developed by Aurik with FSP assistance.

As FSP enters Year 4, it will also seek to leverage from the lessons learned regarding quality assurance of BDS related to finance. Several organizations, including funders, have approached FSP, seeking to collaborate around quality assurance initiatives. FSP will explore how it can leverage its expertise to enable replication in other BDS interventions or with new partners. The goal will be to expand the influence of FSP's work to impact other BDSP/BSO segments in order to promote SME bankability and to apply some of the same principles of quality assurance to other areas of its work, such as the selection of BDSPs for *finfind* training (see KRA2.2).

Activities:

2.1.1: Enhance capacity of BSO partners to scale up delivery through BDSPs. This activity builds on the work that FSP has completed with its partners to date. Previously FSP undertook an assessment of demand in the market for quality assured BDSPs, designed a framework for grading and then developed a strategy for RGA to scale up grading activities across South Africa. For various reasons, the scale of delivery has not met expectations. In the coming year, FSP will undertake an assessment to identify lessons learned from Raizcorp's experience of implementing the grading framework and isolate remediable gaps in capacity and other constraints preventing Raizcorp from meeting the projected goals. The purpose of these system modifications is to increase the efficiency and effectiveness of their selection process, reduce the time required to assess Guides, improve overall organization capacity, thereby ultimately reducing the cost of grading so more BDSPs will enter the RGA.

To further enhance the capacity of Aurik, the program will evaluate the impact of the FSP supported Facilitator training program and tool enhancements which will help Aurik expand its business model throughout South Africa. Aurik has also signed agreements with three organizations (Business Partners, Endeavor and the National Empowerment Fund) to conduct screening of their SME clients using the diagnostic tool developed by FSP. Going forward, FSP will explore with Aurik a way of institutionalizing the tool by, for example, licensing and training evaluators for its partners in order to use the diagnostic tool themselves.

Building on the successful experience of the diagnostic tool with Aurik's partners, FSP will introduce some of its own FI partners to Aurik to assist Aurik expand its footprint even further.

J.P.Morgan

Leveraging Enterprise Development funds

By law, large corporates are required to invest 3% of NPAT in the development of small and medium enterprises. Enterprise Development (ED) funds are proving to be a major catalyst for SME growth and development and as such, are used by many BSOs to subsidize the cost of BDS delivery to SMEs.

JP Morgan proposes designing a BDS rating tool based on a framework of impact indicators for SME growth which will then be used to assist Enterprise Development funders (including corporate and financiers) decide how best to allocate their ED funds to SME development, and more importantly, which BSOs to work with based on the rating of their BDS interventions.

JP Morgan has approached FSP to leverage our knowledge of the market and grading models. We are currently discussing the nature of such a collaboration.

FSP will also continue to facilitate partnerships between BSOs and FIs which lack capacity to deliver BDS, particularly non-bank financial institutions (NBFIs) which are often more accessible to SMEs than larger financiers. By partnering FIs to BSOs, (including the *finfind* host), and guaranteeing an appropriate level of BDS support, FI SME clients will become more finance worthy and their applications more bankable.

2.1.2: Enhance the capacity of BDSPs to assist SME clients to access finance. During the past three years, FSP has worked with a variety of BSOs in an attempt to design strategies and interventions to help BDSPs access SME finance. This has taken various forms, from facilitating consultative workshops, to designing quality assurance mechanisms and developing and enhancing BDS tools. What is evident is that the most effective BDS are those which directly respond to the specific needs of SMEs.

FSP has gained high visibility as a thought leader in the promotion of appropriate, targeted BDS. As a result, a number of different organizations have subsequently approached FSP to collaborate in a variety of initiatives.

JP Morgan is considering designing a tool to rate BDS impact and has approached FSP to collaborate with them in this initiative (see the textbox). Another opportunity has arisen for FSP to support the *dti's* Small Enterprise Development Agency (SEDA) design of a national BDSP quality assurance, improvement and tracking system, assisted by SECO (the Swiss State Secretariat for Economic Affairs). The next development phase identified by SEDA is to define standards by which BDSPs should be eligible to provide BDS on behalf of SEDA.

FSP will act as a resource to transfer lessons learned from previous work completed in promoting SME bankability. Where initiatives and/or impact can be replicated, FSP will provide technical assistance, leveraging USAID's previous investments. The ultimate goal is to ensure that BSOs remain mindful that quality BDS have to be demand driven.

KRA 2.2 SME financial literacy enhanced

KRA Strategy:
As mentioned above, poor SME financial literacy and BDSP limited capacity to link SMEs to FIs are key constraints to accessing credit. FSP's major program to address this gap has been the development of *finfind* – an on-line BDSP guide to help SMEs access finance. The past year saw the completion of the first four phases of *finfind***'s** development, depicted in the figure below and culminated in the testing of *finfind* with a group of BDSPs and an assessment of its readiness to be launched in the market:

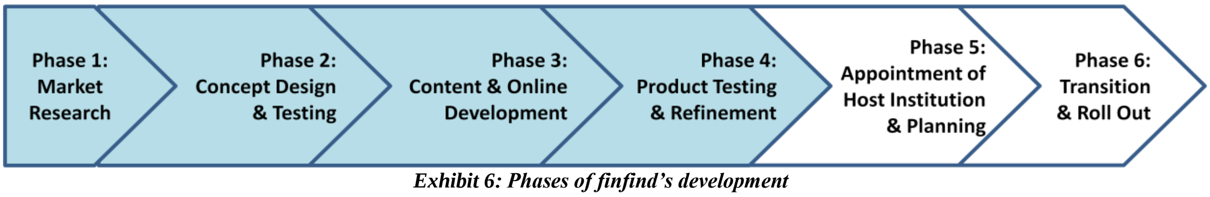


Exhibit 6: Phases of finfind's development

In keeping with FSP's strategy of working through BSOs, the product is designed to enhance SME financial literacy primarily through building the capacity of BDSPs to understand and be well informed about the financial sector – what products and services it offers, who and where the providers are, how to apply for credit, how to provide services that make SMEs better businesses and therefore more credit worthy – and to *engage* with SMEs in a way that promotes access to appropriate finance.

Phase 1 saw the completion of research conducted during Year 2 in which FSP identified the need in the market for a financial literacy product which would promote understanding and knowledge of SME finance providers, yet be non-aligned in terms of promoting one finance provider over and above another.

Phase 2, conducted during the same year, saw FSP design the concept and framework for *finfind*, an online South African guide to SME finance. FSP undertook extensive consultation with its BSO partners to test the viability of the *finfind* tool as a means to assist their BDSP members in assisting SMEs to access finance. This was done to ensure relevance and create awareness of the product concept as well as to anticipate the way it would be used by BDSPs.

Having tested the concept of *finfind* with its partners and securing their unreserved support for it, FSP embarked on Phase 3 to develop the content of the tool and build it as a web-based product. Designed as a comprehensive set of 52 modules, the tool is built as a step-by-step process in which the BDSP addresses with its SME client the starting question of "is it finance that is really needed?" and then navigates them through subsequent steps to address:

The structure of the tool is illustrated in the figure below:

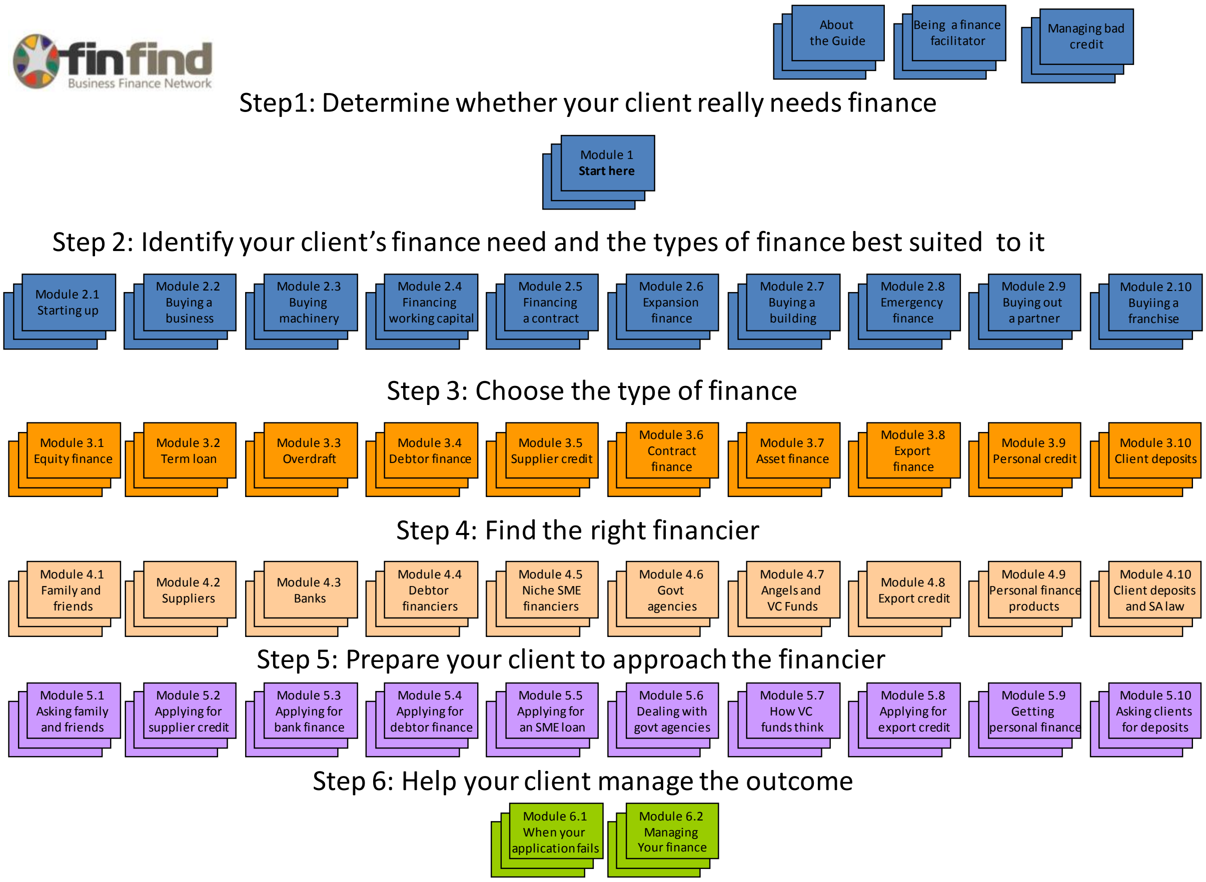


Exhibit 7: Structure of finfind, South Africa's guide to SME finance

Phase 4 focused specifically on testing the newly developed product with FSP's BSO partners. Several organizations were invited to participate in the product test, including SAIBL, the South African Institute of Professional Accountants (SAIPA), the Institute of Business Advisors (IBA) and the Institute for Independent Business (IIB). The test provided training to select BDSPs from these four partners in how to navigate their way through the tool and apply it to assist an SME client. Extensive feedback was solicited to identify what improvements could be made to *finfind* in the immediate and short term to enhance its functionality and use.

With the support of industry players, FSP is now entering Phase 5 beginning with the appointment and transfer of *finfind* to a host institution. Last year concluded with conducting a competitive award process to identify an organizational partner with the relevant footprint, national reach and infrastructure to host and champion *finfind* in the market and maintain, develop and build *finfind* sustainability. Seven proposals were received, two candidates short listed and ultimately, the Nelson Mandela Bay Consortium (NMBC) was selected to work with FSP to become the *finfind* host at the end of the project year.

Opening credit doors for SMEs

As with the development of any innovative application, *finfind* is designed to satisfy a myriad of market gaps but the path to success also presents real hurdles:

Opportunities:

- Links of FIs, BDSPs and SME
- Single portal for FIs to promote the SME products
- BDSPs equipped to expand and professionalize their services offerings to SMEs
- SMEs informed about alternative sources of finances
- SMEs assisted to submit bankable application
- Dynamic content to drive repeat use of tool

Challenges:

- Generating sufficient revenue to cover operational costs
- Ensuring sustainable implementation of *finfind* in the market
- Launching within the timeframe

The NMBC is a consortium of three Eastern Cape-based companies, each offering distinct expertise to ensure that *finfind* is successfully launched in the market. By combining their knowledge and experience in business development support and SME financing, partnering with a strong and competent IT solution provider, and identifying BSOs who have national reach, NMBC distinguished its offer as:

- *Entrepreneurial* – providing a comprehensive solution to rolling out *finfind* across the country,
- *Realistic* –demonstrating understanding of the risks and opportunities of working with the South African market, with BDSPs and financiers and the associated challenges of making *finfind* sustainable, and
- *Dynamic* – demonstrating initiative, energy and commitment to mobilizing partners and stakeholder interest in *finfind*.

FSP will now begin Phase 5 in *finfind***'s** development, which incorporates multiple work streams to transfer and launch *finfind* as a sustainable and scalable model (see diagram below). These are described in the activities below and will run concurrently, rather than in a linear fashion, so that every aspect of *finfind* development will be integrated.

Phase 6 consists of FSP facilitating the transition of *finfind* to NMBC so that they master the ability to maintain, manage and roll it out and develop it in such a way as to acquire and retain new and existing users (BDSPs, finance providers and SMEs seeking assistance to access finance).

FSP anticipates providing extensive support and technical assistance to NMBC so that by the end of Year 4, the sustainability of *finfind* can be secured and ownership of *finfind* transferred. The final transfer will be based on milestones achieved throughout the duration of the coming year.

Activities:

2.2.1: Complete finfind modifications based on pilot. During the product test conducted with a select group of BDSPs in the previous year of *finfind***'s** development, several areas of improvement were identified by the BDSPs which would significantly enhance its functionality and ease of use. These improvements were designated as "short term" because of the technical assistance that would be required to make the necessary modifications. These include:

- Simplifying the presentation of the current content by producing module summaries. This will provide BDSP users with the advantage of electing to work with the summaries once they have mastered the content of the detailed modules, without hampering their use of the tool as a decision-making instrument in the consultation process.
- Adding several new modules to expand the information provided.
- Implementing minor design modifications to improve the "look and feel" of the tool enhancing the *finfind* brand

2.2.2: Finalize hosting strategy, business plan and management plan for finfind host. FSP will support the Nelson Mandela Bay Consortium (NMBC) to maintain and manage *finfind* and to achieve program benchmarks at which point FSP will transfer ownership of the tool. During Phase 5, FSP will ensure NMBC has a deeper understanding of the design and framework of *finfind*, the rationale behind the design, the feedback expressed in all consultations with BDSPs and the tools to adapt and expand its functionality.

FSP will support NMBC as it forms a detailed strategy and work plan for all following activities which will be undertaken simultaneously as shown below.

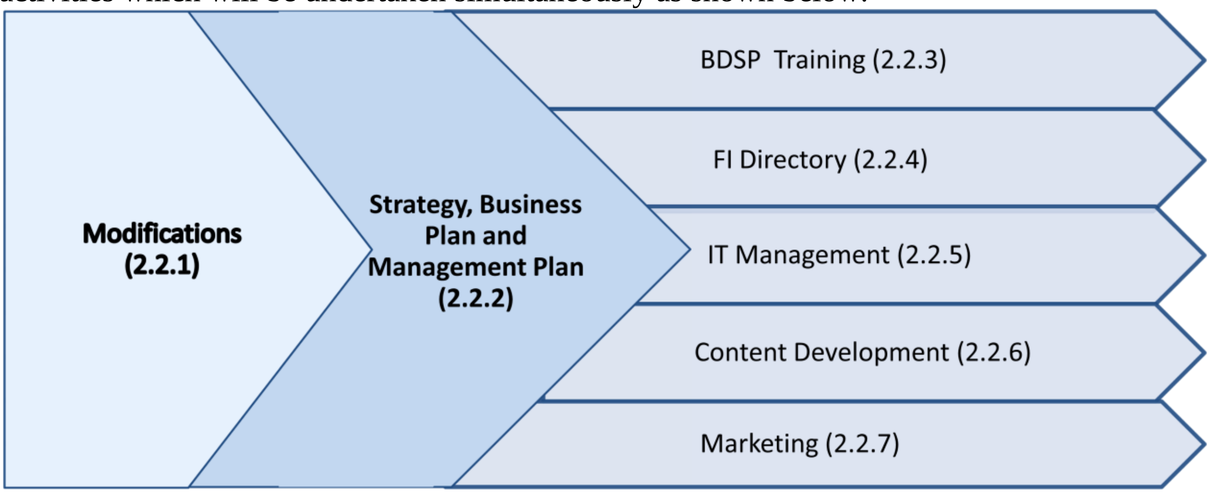


Exhibit 8: Work streams for implementing finfind

2.2.3: Implement finfind training plan. By far one of the most important elements of *finfind* is its use by BDSPs seeking to assist SME clients access finance. FSP will assist NMBC with its strategy for designing and rolling out of *finfind* training across the country. Training strategy components will include:

- The program that will be used to train BDSPs as qualified *finfind* consultants;
- The selection and training of master trainers who will train BDSPs as *finfind* consultants;
- The strategy for recruiting, selecting and training BDSPs;
- The schedule and implementation of *finfind* training; and
- The plan for ensuring timely feedback from *finfind* consultants regarding their use of *finfind* and their additional training needs;
- An identification and definition of the nature of the relationship between NMBC and its master trainers, the basis on which they will offer training, specification of the way in which their performance will be measured and managed, and an explanation of how training overall will be monitored and evaluated (noting that *finfind* has built in M&E report capability).

finfind, through trained BDSPs, will generate a large pool of SMEs able to make informed decisions about their business finance needs.

Through *finfind* consultants, SME owners will be assisted to understand basic financial concepts, know what the most suitable financing options are for their business, where to obtain the relevant products and to interact with confidence with the suppliers of these products and submit more bankable applications.

Current training focuses on the content and how to navigate the tool; however, the curriculum will be enhanced by focusing on the business ethics inherent in such a tool, ensuring compliance to current legislation, and realizing, as a BDSP, the business opportunity inherent in *finfind.*

FSP will assist NMBC finalize their selection of master trainers and ensure that they are trained in how to train BDSPs to use *finfind*. NMBC's intention is to optimize existing relationships with BSO partners and to select only those BDSPs who have been quality assured by their partners. Given that only BDSPs trained in the use of *finfind* will have full user rights to it, NMBC anticipate that by being selective about which BDSPs they train, they will establish a standard and enforce a brand of *finfind* quality. In this respect, their proposal is to target 100 BDSPs for training in the first year before scaling up in the second year.

2.2.4: Expand FI directory listing. FSP and NMBC recognize that one of the more challenging aspects of growing *finfind***'s** appeal in the market is the identification of financiers who are committed to SME financing in practice. FSP's experience in this respect has shown the importance of building and maintaining relationships with financiers active in the SME financing space, which are continually looking for solid, credit worthy SME clients.

With FSP support, NMBC's *finfind* road show will demonstrate the tool and advertise any preliminary results to financiers already listed in the directory, as well as to leverage NMBC's own network of FI partners. By cultivating and maintaining *finfind*-financier relationships, NMBC will ensure that the directory is continually updated with new product information, new providers (where applicable) and new developments in the SME financing space. Such monitoring will also inform changes and additions to the BDS content modules and training provided. It is anticipated that this activity will lead to the *finfind* financier directory growing by 20 new institutions.

Linking SMEs to Credit

FSPs research has shown that one of the most valuable components of *finfind* is the provision of a listing of financial institutions (FIs) dedicated to financing SMEs.

FSP has built into *finfind* a directory of FIs which is available only to trained *finfind* consultant so they can inform their SME clients about specific Fis products and services. Only FIs that have authorized publication of their products are included in the directory.

FSPs information gathering has yielded the following results to date:

- 100 possible sources of SME finance
- 69 approached to list in *finfind*
- 36 directory entries completed
- 18 have authorized listing in *finfind*

A key task for the *finfind* host will be to expand this data base.

2.2.5: Implement IT solutions for finfind maintenance and development. In order to transition *finfind* to NMBC, FSP's technical expert (and developer of *finfind*) will work closely with NMBC's IT service provider to identify any capacity gaps in IT maintenance and management and jointly develop solutions to build IT capacity in these areas. Much of this support can also be conducted remotely after initial field visits. As user feedback identifies areas for additional functionality enhancements, NMBC will integrate such features.

NMBC also proposes to track and monitor the number of hits on *finfind* to establish patterns of use of *finfind* by users. Establishing the track record for *finfind* will help NMBC to leverage advertising, an opportunity for garnering an important source of revenue that NMBC wants to establish. Additionally, they will audit data quality on a regular basis to ensure robust M&E reporting.

KRA 2.2.6: Expand and enhance finfind modules and tools. NMBC anticipate building a dynamic interface with their users (in particular trained *finfind* consultants) so propose communicating with them regularly and soliciting feedback on a continual basis. In addition to this, NMBC wants to engage its users via online surveys to identify additional needs for training, partly as a way of providing additional capacity to *finfind* consultants, partly to provide added value and service to consultants so that they continue to subscribe to *finfind* based on its dynamic contents, and partly because of its potential for added revenue generation, vital to *finfind*'s sustainability.

As content needs emerge, either from the financial institutions or BDSPs, FSP will support the NMBC to develop new or adapted content during the first year. For example, during the product test (Phase 4), additional tools were suggested by the pilot group, including the introduction of a diagnostic tool for *finfind* consultants to use with their SME clients, branded invoices, and a loan calculator. The demand for such tools will be gauged over time and may be developed by NMBC.

The importance of keeping *finfind* up-to-date with value adding information for its qualified BDSP users can not be under estimated and, in this respect, will be an important driver of repeat use by *finfind* consultants. To this end, it is proposed that ten new or modified modules will be developed for *finfind* during the next year and communicated to its users.

KRA 2.2.7: Promote finfind marketing. FSP will assist NMBC to finalize its strategy for marketing and creating awareness of *finfind* in the market, including FIs, BSOs, BDSPs, and SMEs. While the road show to FIs (2.2.4) will stimulate interest in *finfind* and provide the basis for ongoing relationship management, NMBC will further define their strategy for maintaining the profile of *finfind* in the market. NMBC proposes to promote *finfind* to BDSPs via its network of BSO relationships and, in addition to this, wants to create awareness and demand for *finfind* consulting by SMEs. FSP will provide technical assistance to NMBC to refine their marketing approach as it recognizes the importance of promoting *finfind* as a way of stimulating ongoing interest by each of the various interest groups.

FSP will assist NMBC to launch *finfind* in the market as a significant milestone in *finfind***'s** development and one which is anticipated greatly by the BSO and FI community. The exact timing of this will be agreed to with NMBC, however it is anticipated that it will roughly correspond with Phase 6: the onset of training of BDSPs and the transition of *finfind* to NMBC.

A vital component to *finfind***'s** livelihood will be FSP's collaboration with NMBC around the area of knowledge sharing and the proposed integration of FSP's blog with *finfind*. This will be facilitated by FSP via PIR4 activities and will contribute significantly to maintaining market awareness of *finfind*.

C. PIR 3: Financial Sector (and SME) Development Enabling Environment Improved

PIR 3 Benchmarks

- RIA Framework Completed
- 30 GSA supervisors trained
- 2 papers recommending policy options to support a bill on unified insolvency law submitted to DoJ, SALRC and other relevant stakeholders
- Final framework to certify, license and regulate business rescue professionals
- Policy recommendations report on unified insolvency bill submitted
- Business case and workshop/road show to determine feasibility of promoting financing for distressed SMEs completed

To achieve South African government objectives of economic growth, employment creation and transformation, an improved business environment is essential – especially for previously disadvantaged entrepreneurs. An improved business environment is also critical in signaling to potential investors that South Africa is open for business through empirically sound and globally accepted comparative rankings. In recent years South Africa has declined on many of the independently compiled world indices, primarily because other similarly positioned developing countries more aggressively addressed their business environment issues while South Africa has stayed in place.

South Africa is represented by a dual economy that is, on the one hand, highly developed and sophisticated and, on the other, plagued with many of the issues faced by developing countries.

In partnership with the Government of South Africa, FSP addresses a series of key policies, laws and regulations aimed at the business environment generally, yet carefully tailored to assure that the specific interests of SMEs are clearly articulated and incorporated into all policy work. During the initial years of the program, the FSP team established excellent working relationships with an extensive and broad-based list of key public and private sector stakeholders in developing the PIR 3 policy agenda. In this regard, public/private partnership is essential to contribute to government policy formation and to build trust between stakeholders and government. This working relationship was particularly valuable in FSP's support to the Government of South Africa in developing the Amendment Bill and Regulations to the new Companies Act, and in helping to design the framework for the implementing agency, the Companies and Intellectual Property Commission (CIPC). The new Companies Act came into effect in May of 2011 and represents a monumental achievement by the Government in modernizing its business environment with direct benefits for all businesses, including SMEs.

As the FSP enabling environment component nears its conclusion, and with the new Companies Act in effect, FSP's policy work in the coming year will be narrowly targeted to provide support to the GSA in three core areas: (1) supporting National Treasury and the President's Office to build and strengthen capacity in regard to the Regulatory Impact Assessment program; (2) supporting *dti*/CIPC on implementation of the new Business Rescue process; and (3) supporting the Department of Justice and Law Reform Commission in preparing a new draft insolvency bill aimed at unifying the multiplicity of procedures for insolvency.

Two Key Results Areas (KRAs) support PIR 3:

KRA 3.1 – Financial sector legal and institutional framework improved
KRA 3.2 – Regulatory environment stimulating (SME) business development enhanced

Key activities for each of the KRAs are detailed in the following pages. Specific tasks and timing are indicated in Annex A, which follows the text.

KRA 3.1 Financial sector legal and institutional framework improved

FSP assists in the review and reform of a limited number of key policies, laws and regulations that impact on access to finance. To do so, the project works closely with technical teams in departments and agencies of government and aims to provide assistance in areas requested by government bringing international best practices approaches to modernizing the South Africa business environment. Such detailed collaboration between FSP and government professional staff builds capacity thereby providing a more sustained impact.

In addition, FSP undertakes applied research on specific issues for the purpose of presenting policy overviews and defining potential legislative policy areas to be addressed with identified public and private sector champions. Such assistance can require a two-phase approach. During the first phase (covered by KRA 3.1), FSP assists the public and private sector stakeholders in identifying policy issues and collaborating on policy analysis to inform decision-making. Public/private dialogue events are usually part of this process as well as other GSA-mandated reviews. If the government chooses to pursue a new law, regulation or administrative procedure, phase two activities (covered by KRA 3.2) support the effort as it follows the South African policy development process – potentially providing legislative drafting and enactment support. FSP is available to provide additional research, analysis or guidance and then may assist the lead department with implementation of the policy change – primarily through capacity building activities.

Activities:

3.1.1: Support to the Government of South Africa Regulatory Impact Assessment Program. South Africa's legislative reform process has been relatively slow, inefficient and disjointed compared to reforms of neighboring countries and comparable markets among the BRICS countries. A study commissioned by the South Africa Foundation in 2003 found that small businesses often carry a disproportionate burden of regulatory costs because of their limited administrative resources and occasionally uncertain cash flows, and this should be borne in mind when new regulations are being drafted. In 2007, Cabinet decided that RIA must be implemented in South Africa to promote more effective and transparent reforms that do not place an uneven economic burden on disadvantaged constituents. Since its introduction, the RIA program has had difficulty gaining institutional acceptance, which is critical to achieving the economic benefits that it offers. Under the current RIA framework approach adopted in South Africa, National Treasury serves as one of the central supervisors and monitors of the programs implementation.

Regulatory Impact Assessments

Regulatory Impact Assessment (RIA) is a tool used to assess the likely consequences of proposed regulations, and the actual consequences on all sectors and constituencies of existing regulations in order to assist those engaged in planning, approving and implementing improvements to regulatory systems. In addition to promoting better regulation and good governance, using regulatory impact assessments can promote transparency, accountability and consistency in policy making across government.

The economic costs of regulation include the costs of administering the regulatory system and the compliance costs of regulation, which fall on consumers, producers and other stakeholders. Excessive, complex administrative regulations can impede innovation, and create unnecessary barriers to trade, investment and economic efficiency. Hence, the quality and appropriateness of regulation is as critical to socio-economic development as appropriate macroeconomic policies.

National Treasury requested FSP to provide support to help build capacity in Treasury based on a two-phase program designed to assist the Government of South Africa to implement its announced RIA policies. Phase 1 of the assistance focused on the review of Estate Agents Policy by piloting an assessment of the Estate Agency Affairs Act (EAAA), which was completed in late 2010. Based on recommendations from Phase 1 and after discussions between National Treasury and FSP, Phase 2 of this activity will focus on capacity building with the ultimate objectives of:

(1) taking stock of the local experience with RIAs based on a handful of important pieces of legislation (i.e., the Land Use Management Act, the Intellectual Property

Act, the Labor Act and the EAAA) to identify important lessons learned that will enable FSP to recommend policies and steps for improving the RIA process; and

(2) strengthening institutionalization of the RIA program in South Africa based on a 3-5 year implementation strategy, and development of a RIA Toolkit for use in training Ministry staff involved in RIA policy development and implementation, who will serve as trainers for other Government staff.

The process will result in delivery of a final report identifying experience, lessons learned and policy recommendations with a three to five year implementation plan. FSP will host a government training workshop for 20-30 government policy specialists from different departments and conducting several training sessions with a small group of staff from National Treasury and the President's Office to prepare them as trainers for other government staff.

FSP will also draft and present for Government approval a RIA toolkit to be a key component of the long term plan to institutionalize RIA within Government agencies. FSP will work together with the Treasury to determine what follow on activity are needed to continue to advance this important initiative.

3.1.2: Applied research on reforms required to enhance the insolvency policy framework. Mechanisms to promote efficient business rescue or liquidation are important for the business environment generally, including SMEs, as they create market certainty for resolving issues of default, which in turn promotes access to finance at more affordable rates. It also increases prospects for rescuing viable businesses and thereby saving jobs, while in the case of unviable businesses assets can be swiftly transferred to more efficient market players, minimizing loss and risk for stakeholders.

Insolvency reforms have been proposed in South Africa for at least the last 15 years. After years of proposed revisions and amendments to a variety of regulations, a new Business Rescue process was introduced as Chapter 6 of the new Companies Act. With the successful completion of the new Companies Act,

FSP champions the insolvency framework discussion

Effective insolvency and creditor rights systems promote financial sector stability, expand credit access, and enhance job preservation prospects. Following its extensive involvement advising government on the completion of the Companies Act, FSP expanded on a key feature of this Act, namely Chapter 6, Business Rescue.

FSP conducted a comprehensive review of the insolvency systems in South Africa to better integrate a framework that currently involves a multitude of disparate, frequently dysfunctional procedures administered by various agencies without coordination. Undertaken last year, this work laid out a roadmap for reform that has served as a springboard for dialogue on the urgent need to modernize, harmonize and unify the insolvency framework.

To tackle the problem, government convened an inter-agency steering committee, inviting FSP's participation, to develop policy recommendations and provide inputs on a unified insolvency bill that can be presented to the government on an expedited basis for consideration in 2012.

The full report can be viewed at http://www.fsp.org.za/blog/wp-content/uploads/SOUTH-AFRICA-INSOLVENCY-SYSTEMS1.pdf

Department of Justice (DOJ) is now updating the unified insolvency bill, which must take account of the new business rescue procedures introduced under the Companies Act, as well as procedures on debt adjustment contained in the National Credit Act that became effective in 2007, and other issues of concern raised in connection with a prior version of the insolvency bill.

In view of FSP's support to *dti* on preparation of the Amendments and Regulations to the Companies Act, including the Business Rescue procedure, and its comprehensive review of the insolvency framework, the DOJ and South African Law Reform Commission (SALRC) have requested FSP's assistance in connection with the preparation of the new draft insolvency bill, specifically by addressing critical issues raised by the National Economic Development Labor Commission (NEDLC) pertaining to the treatment and preference of employee claims and appropriate calibration of liquidator remuneration fees. The applied research results on these topics will be submitted to SALRC for consideration in developing appropriate provisions in the proposed unified insolvency bill, which is currently planned to be resubmitted to Cabinet by December 2011 for consideration by Parliament in 2012.

KRA 3.2 Regulatory environment stimulating business (SME) development enhanced

KRA Strategy:
This KRA primarily covers phase two of the policy development process described in KRA 3.1: drafting of laws, regulation and administrative procedures and potentially assistance with their implementation once enacted. FSP's Year 4 strategy focuses on harmonizing dissonant regulations and procedures housed in a variety of GSA agencies, as well as operationalizing specific procedures for streamlining business rescue to stabilize the business environment in the face of bankruptcies, including SME failures. For example, FSP will support CIPC in developing administrative procedures to support the new Business Rescue process and accreditation standards and rules to effectively license and regulate a new profession of Business Rescue Practitioners authorized under the Companies Act. FSP also intends to provide support as needed in a review of the Fee Structure developed with FSP's assistance to make CIPC self-sustaining.

Following its extensive review in 2010-2011 of the shortcomings in the insolvency law systems in South Africa, FSP will provide support to the Department of Justice and the Law Reform Commission on policy to improve and unify the insolvency law framework and ensure harmonization among the debt resolution procedures under the National Credit Act and the new Business Rescue and Compromise procedures contained in the Companies Act, addressed in section KRA 3.2.2 below. The chart below maps the various insolvency procedures currently available in South Africa governed by numerous laws, including the Companies Act of 1973, the new Companies Act of 2008, the Close Corporations Act, the Insolvency Act, the Magistrates Act and the National Credit Act. Most of these procedures are regulated by different agencies, with seemingly little coordination or interaction.

	Rescue	**Liquidation**
Business	• Informal Workouts • Compromises (CA, CCA) • Business Rescue (CA, Ch 6)	• Voluntary Winding-up (CA73, CCA) • Involuntary Winding-up (CA73, CCA, IA) • Insolvency, Liquidation (IA)

Individual	• Informal Agreements & Voluntary Compositions • Debt Adjustments (NCA) • Administration Orders (MA)	• Sequestration (IA)

Finally, FSP will also provide policy support in collaboration with the PIR 1 component to develop a business case for new financial products aimed at businesses undergoing a restructuring. The team will explore options for accessing such finance through the DCA Guarantee facility.

Activities:

3.2.1 Support dti/CIPC in implementation of select areas of new Companies Act, including business rescue procedure. FSP provided support to *dti* in the preparation of the Amendment Bill and Regulations to the Companies Act 2008, which came into effect on May 1, 2011. FSP had agreed to continue to provide support to *dti* and the new Companies and Intellectual Property Commission (CIPC) on implementation matters under the new Companies Act. In Year 4, FSP will assist CIPC in two well-defined areas:

Accreditation and regulatory framework for Business Rescue Practitioners (BRPs). The new Business Rescue provisions replace the former “judicial management” system with a new system managed by the “Business Rescue Regulatory Board” with authority to establish the standards and regulatory framework for the newly established profession of “Business Rescue Practitioners”. To address the current regulatory gap, CIPC has been approving BRPs on an *ad hoc* basis on application of professionals nominated in a specific Business Rescue proceeding who demonstrate their qualifications, skills and experience in the field of business rescue and turnaround. This interim approach does not allow for the pre-qualification of BRPs nor provide the certainty needed to grow and sustain the profession based on a set of clearly defined criteria consistently applied to applicants. Moreover, a key focus of the permanent framework will be to facilitate mentoring of previously disadvantaged practitioners to ensure that the Business Rescue profession serves as a model for inclusion, training and development of skills to meet the demands of the South African economy. Therefore, FSP will support CIPC in the development of a certification accreditation and regulatory framework governing a new profession of business rescue practitioners.

Review of the effectiveness of CIPC's fee structure. In 2010-2011, FSP supported *dti* in designing the framework and developing a proposed fee structure for the new Companies and Intellectual Property Commission, which is now currently being used. The comprehensive “Fee Structure” was designed to assure full cost recovery, the achievement of the Commission’s “knowledge management” role and to design mechanisms favoring SMEs moving towards formality in an SME friendly business environment under the new Companies Act and Regulations. FSP will assist *dti*/CIPC to review the effectiveness of the Fee Structure following an initial period of implementation of approximately 6-12 months. FSP’s assistance would most likely be limited to a desk review of relevant data and results related to the Fee Structure, fees generated and achievement of CIPC’s original objectives and recommendation for further refining the Fee Structure.

3.2.2 Follow up on insolvency policy framework harmonization and legislative reform. As indicated in KRA 3.1.2 above, the Government has placed priority on modernizing the insolvency framework. In addition to the assistance FSP is providing in the form of applied research on issues raised by NEDLC, which must be addressed in the updated insolvency bill, FSP has been invited to participate in an inter-agency Steering Committee tasked with providing feedback to Treasury on an insolvency and creditor rights framework assessment undertaken by the World Bank. The objective is to recommend changes to a number of legal systems, including insolvency, to bring them into compliance with international best practice, and to provide feedback on the draft insolvency bill from the perspective of other affected public and private sector stakeholders. FSP anticipates reviewing a copy of the draft insolvency bill when ready and will be submitting policy recommendations in the form of a report to the Government.

FSP will also explore opportunities to assist the *dti*/NCR to define the scope and application of the NCA debt counseling and restructuring mandate as well as its interaction with the new Companies Act rescue provision and Insolvency Act and amendments to assure consistency and harmonization. FSP is also working with the World Bank as part of this research activity.

3.2.3 Support to PIR 1 in exploring new financial products for SMEs undergoing business rescue. In the past two months alone, over 130 companies have submitted applications for the new business rescue procedure. Numerous other businesses invariably opt to restructure their debt informally with their lenders and creditors. In both cases, the availability of replacement, supplemental and exit financing for distressed businesses, including SMEs, is an untapped market in South Africa. Such restructure financing is virtually non-existent. Yet, one of the critical ingredients to a successful rescue of a business is access to finance to meet interim restructuring obligations and to sustain the business pending negotiations and a restructuring. In countries with mature restructuring markets, such as the US and UK, numerous lenders and credit providers have emerged to meet the credit needs of financially distressed businesses. Such financing can be provided on attractive terms to providers of finance, assuming underlying liquidation and default risks can be properly managed.

To help spawn a new industry and financial products for businesses undergoing restructuring, and as a further support to the Business Rescue mechanism, FSP will develop a business case for restructure and business rescue financing, drawing on the experience of markets like the US and UK, and adapting the model to the context of South Africa. FSP will also explore the potential for utilizing the SME debt fund (KRA 1.3.1) to facilitate restructuring to financially distressed businesses and SMEs on terms that may be immediately more attractive to lenders in view of the decreased risk associated with SME debt fund financing under the DCA guarantee facility. FSP envisions collaborating with the South African Bankers Association, local financial institutions, and non-bank financial intermediaries to explore development of this niche finance industry.

D. PIR 4: SME Knowledge Management System Strengthened

PIR 4 Benchmarks

- Transfer of FSP blog to *NMBC*
- 5 new collaborating partners identified
- 20 knowledge management content submissions distributed
- 12 knowledge dissemination presentations

Through its own programming, presence in the sector, and its interaction with partner and stakeholder organizations, FSP has accumulated information on best practices in SME finance, business enabling environment, innovative support mechanisms for small businesses and various tools for ensuring the success of the SME sector. These documents provide wideranging views of the SME market and can assist FIs and BSOs understand opportunities and solutions to challenges.

The knowledge management system comprises a Visual Basic data collation and analysis tool (dashboard), a financial sector blog and information filing on the FSP server. These three data sources can be used to convey information to FSP partners and other SME financing and business development stakeholders swiftly and effectively, enabling them to enhance productivity and efficiency in the provision of financial products and services.

Therefore the FSP Knowledge Management component seeks to:

- Strengthen SME finance-related knowledge management,
- Share innovative financing options and opportunities; and
- Disseminate successful approaches for SME development in collaboration with private, government and other donor programs.

In this way, the knowledge management component of FSP aims to address a major constraint in the SME sector, namely, problems in accessing finance and a general lack of coordinated information on the SME finance market. Many of the difficulties are being addressed by other FSP components and their partners as they develop a more complete range of financial products and services, better preparing SMEs for finance and growth, reducing regulatory rigidities or addressing gaps in the legal framework. Knowledge management efforts encourage an exchange of information on these components and other matters related to SME development and finance.

The overall approach to addressing this information gap involves collaborating with other stakeholders interested in SME finance to share expert opinions, ideas and solutions to challenges facing the SME community. Each FSP component output will be documented in a way that is appropriate for dissemination through the blog (www.fsp.org.za/blog) and by co-hosting various forums and symposia with key stakeholders to exchange experiences. The activities focus on enhancing market awareness of SME financial products and encouraging SMEs to productively access them. The main target audience is the credit providers and advisors such as FIs, BSOs and BDSPs to ensure that they are well equipped to support SMEs. The second target audience is the SMEs (ultimate beneficiaries) so that they can be informed consumers of financial services and know options to best grow their businesses.

In the coming year, efforts will concentrate on ensuring sustainability of the blog as a knowledge management tool after the project closes. This will entail collaboration with the *finfind* host to ensure integration of the blog with its other activities, resulting in a re-design of the blog, and a reorientation of content to become more SME friendly and accessible to meet the needs of the *finfind* market.

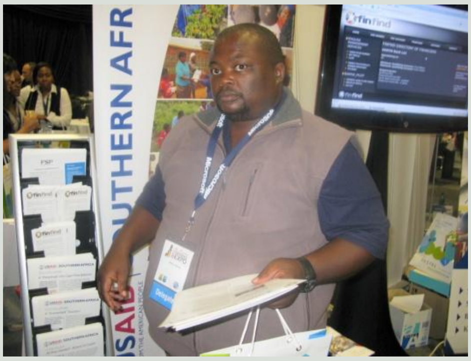
There will also be an intensified effort to promote success stories and to generate multimedia case studies showcasing the work of FSP as well as those of its partners to draw a wider audience and improve awareness of SME finance best practices.

Two key result areas support PIR 4:

KRA 4.1: Public-private stakeholder collaboration in SME knowledge management expanded
KRA 4.2: Improved awareness of SME finance best practices

Key activities for each of the KRAs are detailed in the following pages. Specific tasks and timing are indicated in Annex A, which follows the text.

Leveraging partner knowledge management events

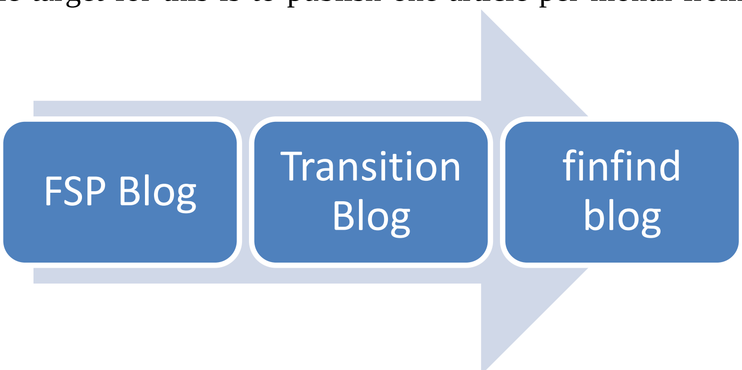


As in years past, FSP will identify opportunities to participate in partner conferences, workshops and symposiums. This approach not only assists NMBC build its event capacities, put presents diverse opportunities to share current thinking on SME finance.

KRA 4.1 Public-private stakeholder collaboration in SME knowledge management expanded

KRA Strategy:
FSP will continue to build on existing partnerships and to formalize them, as well as to cultivate new partners. This will include the use of letters of intent as well as informal agreements to work on specific activities such as co-hosting of knowledge sharing events, contributions to the blog or any other knowledge sharing forum. FSP will mine its existing collaborations with the Banking Association, dti, FIs, NSBC and ICSB, among others, to integrate their knowledge in the wider sector.

Activities:
4.1.1 Facilitate integration of the FSP blog to NMBC. FSP will continue to develop the blog content and to establish links to the blog on collaborating partner websites. Likewise, it will continue to ensure search engine optimization of the blog to raise its visibility on the Web. There will be extra efforts to extract information from other FSP component leaders and SME industry leaders for contributions, through the use of scheduled interviews rather than simply inviting contributions via email. The target for this is to publish one article per month from each component leaders, amounting to a minimum three stories per month.



The ultimate goal of this activity is to transfer the blog to the new *finfind* host institution. It will begin with preliminary meetings with the new *finfind* host to develop a profile of its target audience so as to inform a re-design of the blog to reflect *finfind* audience needs and to develop content that is more SME-friendly reflecting the look and style of *finfind* products. In order to ensure continuity with the existing FSP blog it will be necessary to create a link with *finfind* or an automatic rerouting feature to draw current readers to the new site. Alongside this content development, FSP will provide technical and operational support to NMBC. Once the new blog design has been in operation for two months, FSP will assist the *finfind* host to conduct an e-survey to assess the effectiveness and appropriateness of the content and format that will inform them how to best optimize the blog. In this way the *finfind* host will take possession of the FSP blog gradually and the sustainability of this facility is ensured since it will be tailored to its market and audience and owned by the private sector.

Expanding FSPs participation on the speaker circuit

A core element of PIR 4 activities entails expanding the broad based dissemination of information generated from FSP technical activities. FSP has a myriad of collaborating partners with which to leverage speaking opportunities and intends to expand its knowledge sharing over the final years of the project.

4.1.2 Build collaborative relationships for knowledge dissemination. Six potential partners have been already been identified that could contribute stories on SME access to finance to the knowledge management system: Wealthwise Magazine; SME Survey; Financial Intermediaries Association of Southern Africa; Small Business Project; SME South Africa Forum and SMME Incentives. It is necessary to pursue these potential partners more aggressively to engage them in sharing knowledge. This will be done by offering to interview them and then generate articles for the blog on which they would be credited as co-authors. This year FSP will identify five new collaborating partners and disseminate 20 knowledge management content submissions.

There will also be a new emphasis on expanding M&E visits to FSP partners to probe them on the impact of FSP on their work specifically and on SMEs in general. In this regard FSP will collaborate with the Global Impact Investment Network (GIIN) to investigate the socio-economic and environmental impact of FSP products based on USAID focal areas (Feed the Future; Climate Change and Global Health). Another initiative to assess impact will be collaboration with FS Share to conduct a comparative analysis on the POF as provided by ABSA, Standard and Blue. The outputs of these two studies will be published on the blog.

KRA 4.2 Improve awareness of SME finance best practices

KRA Strategy:
FSP will seek to emphasize and convey the lasting legacy of the products developed by FSP and sector partners by intensifying its dissemination of best practices and stories of impact. It will continue to co-host events to share these stories, and it will also enhance the existing formats for these stories by introducing more multimedia elements to the blog and by encouraging partners to collaborate on the creation and dissemination of video versions of success stories introduced as a result of FSP work.

Activity:

4.2.1 Promote timely and wide distribution of best practices and stories of impact. FSP will initiate and organize various events, workshops and symposia and leverage those of partners to promote financial products developed by FSP and to exchange knowledge with partners. The goal is to hold or support 12 knowledge dissemination events this project year. Several potential topics have been identified: SME debt fund; purchase order finance invoice clearing; value chain financing; weaknesses in credit reporting systems; mechanisms to rescue distressed companies; publication of a report analyzing risk management barriers, and there is an opportunity for each component leader to make presentations at the 2012 International Small Business Congress scheduled for September.

The blog will continue to be used as an outlet for the publication of FSP achievements and success stories, however in the forthcoming year FSP will sharpen the style with the use of multimedia formats and zesty content written in journalistic feature writing style and case study formats. This can entail making *You Tube* clips of success stories for publishing on the blog. This will assist the blog to reach a broader audience that includes SME owners, reinforcing the transition to the *finfind* host and encouraging return visits.

There will also be attempts to explore opportunities for the production and posting of multimedia impact stories of partners. Similarly, FSP will attempt to engage FIs in the dissemination of success stories through broadcasting clips of their success stories on their in-branch televisions, with a particular emphasis on showcasing products developed with the help of USAID. The theme of such publications will be the lasting legacy of the FSP products.

SECTION III: ACTIVITIES MATRIX – SEE ATTACHED PDF